Appendix F: The Benefits of Regional Tax-Base Sharing

Revenue sharing between state and local governments represents a fiscal partnership. This partnership reflects the recognition that tax collection – either sales, income, property tax or other taxes – is often best accomplished at a higher level of government, while the services and activities funded by these taxes are best driven by local decision making. For example, it would not make good economic sense for every municipality to have its own "IRS" to collect the share of income tax that is returned to each city. Conversely, it wouldn't make sense for the State to determine how our city wants to use the City bandstand. While we recognize the value of economies of scale, and the value of decision making delegated to the lowest practical level, the current model for tax redistribution doesn't reflect the varied levels of activity undertaken by city governments.

State law redistributes 17 percent of state income tax revenue generated in Takoma Park back to the City government. This formula, like most tax redistribution formulas, fails to take account of the varied levels of activities provided by municipalities, as well as varied capacities to generate income. This is true of property tax and sales tax as well. These types of tax policies create inequitable redistributions in part because the redistribution is limited to the locality in which they were collected.

Frequently, socially desirable goods do not generate taxes, so communities that use their resources generating such goods lose in the tax redistribution formula. For example, communities that provide housing for moderate-income citizens generate less income tax, and property tax, yet still must provide services such as recreation, police and sanitation services to those residents. This community would receive the same 17 percent that a community with wealthier residents whose income and property values generate more income. Another example would be communities that favor regional retail, such as Wal-Mart, to generate sales taxes over an office building that would generate jobs and property taxes. When land activities are driven by potential tax income to the near exclusion of other factors, this is called the fiscalization of land use. Such land-use pressures often result in sprawl and competition between cities for scarce fiscal resources.

Regional tax-base sharing is one way to address this problem. With tax-base sharing, all of the municipalities within a metropolitan area pool some portion of their tax base to be redistributed based on desired social or structural outcomes. This discourages interregional competition; facilitates other planning goals such as preserving open space or maintaining a vibrant downtown; encourages suburbs and central cities to cooperate on regional economic development goals; and leads to a more equitable distribution of tax burdens and public services.[32]

Regional tax-base sharing was implemented in the seven-county Twin Cities metro in 1971. Each community contributes 40 percent of the growth of its commercial and industrial property tax base

[32] Helpful thinking on regional tax-base sharing has been fostered by the Rules Project Institute for Local Self-Reliance. Further information is available at www.newrules.org.

after 1971 to a regional pool. The funds are redistributed based on a formula that takes into account a jurisdiction's population and fiscal capacity (defined as per capita real property valuation).

According to former Minnesota State Representative Myron Orfield, an expert on regional revenue-sharing, the system has reduced tax-base disparities among Twin Cities communities from 50:1 to roughly 12:1. The system has not eliminated disparities, because 60 percent of any new revenue from commercial development remains in the host community. Only about 20 percent of the region's total tax-base is shared.[33]

Regional tax sharing has been implemented in the Hackensack-Meadowlands region of New Jersey and is currently being considered in Sacramento, California.[34]

[33] *Id.*
[34] *See* http://www.policylink.org/Research/AB680/ for more information on the Sacramento model legislation.